

Message Text

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ACTION EB-11

INFO OCT-01 ARA-16 ISO-00 SSO-00 NSCE-00 USIE-00 INRE-00

USIA-15 SP-03 AID-20 NSC-07 RSC-01 CIEP-03 TRSE-00

SS-20 STR-08 OMB-01 CEA-02 L-03 H-03 CIAE-00 COME-00

FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

TAR-02 INT-08 DODE-00 PA-04 PRS-01 DRC-01 /170 W

----- 104127

O P 211830Z SEP 74

FM AMEMBASSY GEORGETOWN

TO SECSTATE NIACT IMMEDIATE 330

INFO AMEMBASSY PARAMARIBO PRIORITY

AMEMBASSY PORTAUPRINCE PRIORITY

AMEMBASSY KINGSTON PRIORITY

AMEMBASSY PORTOFSPAIN PRIORITY

AMEMBASSY SANTO DOMINGO PRIORITY

UNCLAS SECTION 1 OF 2 GEORGETOWN 1693

E.O. 11652: N/A

TAGS: EMIN EIND GY

SUBJECT: GOG ANNOUNCES 5.9 PERCENT US DOLS 7 MILLION BAUXITE

LEVY RETROACTIVE TO JANUARY 1

1. MINISTER ENERGY AND NATURAL RESOURCES GAVE STATEMENT AND ANSWERED QUESTIONS ON BAUXITE LEVY AT PRESS CONFERENCE MORNING SEPTEMBER 21; AFTER LENGTHY REMARKS ON REYNOLDS OPERATION IN GUYANA, COMPANY'S DISCUSSIONS WITH GOG, NATURE OF MULTINATIONAL ALUMINUM COMPANIES, AND JAMAICAN TAX FORMULA, JACK GOT TO POINT OF BAUXITE LEVY. FOLLOWING ARE EXCERPTS OF STATEMENTS MAJOR SPECIFICS: (QUOTES WITH IRRELEVANT MATERIAL DELETED):

A. THE BASIS OF COMPUTATION OF THE TAX LEVY WHICH WILL BE APPLIED TO THE REYNOLDS OPERATION IN GUYANA WILL BE A PERCENTAGE OF THE AVERAGE REALISED PRICE OF THE ALUMINUM INGOT RELATED TO THE AMOUNT OF BAUXITE REQUIRED TO PRODUCE A TON OF ALUMINUM.

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B. IN OUR APPROACH TO REYNOLDS WE CALCULATED FOR THE FACT THAT THE ALUMINA CONTENT OF BAUXITE MINED IN GUYANA IS HIGHER (53.5 PERCENT) THAN OF JAMAICA (42.2 PERCENT). REYNOLDS ACKNOWLEDGED THIS FACT AND IT WAS AGREED THAT THE CONVERSION FACTOR (FROM BAUXITE TO ALUMINIUM) WOULD BE 3.39 COMPARED TO 4.3 IN JAMAICA.

C. AFTER CONSIDERING THE REPRESENTATIONS FROM REYNOLDS, GOVT DECIDED TO APPLY A PERCENTAGE OF 5.911 PERCENT IN THE CASE OF GUYANA, IN ORDER TO ACCOMMODATE DIFFERENTIALS IN FREIGHT AND MINING COSTS.

D. WHEN THE JAMAICA TAX WAS APPLIED, IT WAS ESTIMATED THE AVERAGE MARKET PRICE FOR ALUMINIUM INGOT IN NORTH AMERICA FOR THE YEAR WOULD BE 32 CENTS PER POUND. THE ACTUAL PRICE HAS SINCE ESCALLATED TO AS HIGH AS 38 CENTS PER POUND. GOVT HAS NEVERTHELESS DECIDED, FOR THE PURPOSE OF ARRIVING AT A BASIC TAX RATE IN GUYANA TO USE THE PROVISIONAL AVERAGE REALISED ALUMINIUM PRICE AT 32 CENTS PER POUND FOR 1974. THIS PRICE WILL OF COURSE BE ADJUSTED AT THE END OF THE YEAR TO THE ACTUAL AVERAGE REALISED PRICE FOR THIS YEAR.

E. THE RESULTING BASIC TAXATION RATE TO BE APPLIED TO THE REYNOLDS OPERATION IN GUYANA WILL THEREFORE, BE US DOLS 11.16 PER LONG DRY TON OF BAUXITE PRODUCED. THERE WILL BE NO INCREASE IN ROYALTY.

F. IT WAS THE INTENTION OF GOVT TO APPLY THE TAX LEVY TO REYNOLDS TOTAL BAUXITE PRODUCTION AT AN ESTIMATED MINIMUM, BASED ON THE COMPANY'S PROJECTED FIGURES, OF 930,000 TONS FOR 1974. THE GOVT, HOWEVER, ACCEPTED FURTHER REPRESENTATIONS FROM REYNOLDS THAT THEIR PRODUCTION WHICH IS SOLD AS CALCINED BAUXITE AND CHEMICAL GRADE BAUXITE AND IS NOT, THEREFORE, PROCESSED INTO ALUMINIUM AS PART OF THEIR INTEGRATED OPERATION SHOULD BE EXEMPTED FROM THE TAX LEVY.

G. THE BASIC TAX RATE WILL, THEREFORE, BE APPLIED TO A MINIMUM PRODUCTION TONNAGE, IRRESPECTIVE OF ACTUAL PRODUCTION OF 615,000 TONS FOR THE YEAR 1974, EFFECTIVELY EXCLUDING REYNOLDS CALCINED AND CHEMICAL GRADE PRODUCTION FROM THE LEVY, A TOTAL OF SOME UNCLASSIFIED

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315,000 TONS OF ORE.

H. THE REVENUE WHICH WILL BE REALISED FROM THE APPLICATION OF THE LEVY FINALLY DECIDED UPON BY GOVT WILL NOW BE IN THE VICINITY OF US DOLS 7,000,000.

I. REYNOLDS, THOUGH ACCEPTING THE PRINCIPLE OF RELATING THE COLLECTION OF REVENUE TO THE PRICE OF THE PRIMARY ALUMINIUM

INGOT, WERE QUITE UNPREPARED TO PAY MORE THAN A SUM OF US DOLS 4 MILLION.

J. THE REYNOLDS OFFER WAS TOTALLY UNACCEPTABLE TO GUYANA AS, IN EFFECT, THE COMPANY'S APPROACH IS NOT THE APPLICATION OF A TAX RELATED TO THE PRICE OF ALUMINIUM BUT THE OFFER OF FIXED SUM OF MONEY PRESENTED IN TERMS OF A PERCENTAGE OF THE REALISED PRICE OF ALUMINIUM.

K. THE REYNOLDS OFFER CALCULATES OUT TO A PERCENTAGE OF APPROXIMATELY 2.116, OR A BASIC TAX RATE OF APPROXIMATELY US DOLS 4.30. THIS IS RIDICULOUSLY LOW AND BEARS NO REAL RELATION-

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INFO OCT-01 ARA-16 ISO-00 SSO-00 NSCE-00 USIE-00 INRE-00

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UNCLAS SECTION 2 OF 2 GEORGETOWN 1693

E.O. 11652: N/A

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LEVY RETROACTIVE TO JANUARY 1

SHIP TO THE MARKET PRICE OF ALUMINIUM. IT IS IN FACT LOWER THAN THE RATE OFFERED BY THE BAUXITE COMPANIES IN JAMAICA AND REJECTED BY THE JAMAICAN GOVT.

L. FURTHER, THE REYNOLDS PROPOSAL WAS CONDITIONED ON GOVT AGREEING TO ABANDON ITS POSITION ON NATIONALISATION OR ANY FORM OF PARTICIPATION IN THE REYNOLDS OPERATION FOR A PERIOD OF ANOTHER FIVE YEARS. SUCH A CONDITION IS, OF COURSE, TOTALLY UNACCEPTABLE TO THE GOVT OF GUYANA.

M. GOVT WILL BE INTRODUCING TO PARLIAMENT NEXT WEDNESDAY (SEPTEMBER 25) THE NECESSARY LEGISLATION FOR THE APPLICATION OF A TAX
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LEVY ON REYNOLDS BAUXITE PRODUCTION IN GUYANA. THE LEVY WILL BE IN ACCORDANCE WITH THE FORMULA I HAVE DESCRIBED AND WILL HAVE EFFECT FROM 1ST JANUARY 1974.

N. REYNOLDS WILL BE REQUIRED TO PAY THE FIRST HALF YEAR OF THE TAX WITHIN 15 DAYS OF THE LEGISLATION BEING PASSED IN PARLIAMENT.

O. THE APPLICATION OF THE TAX LEVY IS, IN GOVT'S VIEW, A JUST, FAIR AND SOVEREIGN ACT ON THE PART OF THE GUYANA GOVT TAKEN IN THE INTEREST OF THE WELFARE OF THE PEOPLE OF GUYANA. END STATEMENT.

2. LENGTHY QUESTION SESSION FOLLOWED READING OF TEXT, ACCOMPANIED BY FREQUENT PASSING OF NOTES FROM MINISTER OF STATE FOR INFORMATION TO SOME REPORTERS. FOLLOWING RESPONSES FROM NOTES OF USIS OFFICER PRESENT TO MOST SIGNIFICANT QUESTIONS:

A. ASKED HOW GOG JUSTIFIED RETROACTIVITY OF LEVY, JACK RESPONDED THAT REYNOLDS NEVER OBJECTED TO TIME FRAME OR FORMULA IN OFFERING US DOLS 4 MILLION. ON RELATIONSHIP OF LEVY TO NATIONALIZATION, JACK RESPONDED THERE NO REPEAT NO RELATION. SAID PRIME MINISTER HAD DEALT WITH NATIONALIZATION IN JULY (SPEECH AT LINDEN). IN RESPONSE SPECIFIC QUESTION OF WHETHER REYNOLDS WOULD BE NATIONALIZED, JACK AGAIN REFERRED TO P.M'S SPEECH AND SAID GOG AND REYNOLDS WOULD BE NATIONALIZED, JACK AGAIN REFERRED TO P.M'S SPEECH AND SAID GOG AND REYNOLDS NOT REPEAT NOT NOW HOLDING TALKS ON NATIONALIZATION. RESPONDING FURTHER QUESTIONS ON NATIONALIZATION, JACK SAID BASED ON EXPERIENCE GUYBAU, GOG SURE IT COULD OPERATE REYNOLDS MORE EFFICIENTLY THAN IT PRESENTLY BEING OPERATED. NO DECISION YET ON WHETHER REYNOLDS WOULD BE MERGED WITH GUYBAU. RESPONDING ANOTHER QUESTION, JACK SAID IF REYNOLDS CONTINUED OPERATING FIVE MORE YEARS IN SAME MANNER AS NOW, AT END THAT PERIOD THERE WOULD BE NOTHING LEFT TO NATIONALIZE.

B. ASKED WHAT WOULD HAPPEN IF REYNOLDS REFUSED TO PAY LEVY,

JACK SAID SANCTIONS IN BILL WILL COVER THAT POINT, AND IMPLIED THAT BILL WILL PROHIBIT EXPORT OF BAUXITE BY REYNOLDS UNLESS LEVY PAID. QUERIED WHETHER REYNOLDS COULD COLLECT OPIC AND LLOYDS INSURANCE CLAIMING LEVY AMOUNTED TO CONFISCATION, JACK REPLIED THAT UP TO THE INSURORS.

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C. REPORTER ASKED WHETHER THERE WILL BE CONFRONTATION WITH USG OVER OPIC INSURANCE, JACK SAID WE CANNOT ANTICIPATE THAT POSITION NOW. REPORTER FOLLOWED WITH IS GOG RECEIVING EXTERNAL PRESSURE TO ACCEDE TO REYNOLDS POSITION. JACK RESPONDED THAT IN 1970-71 PRESSURE HAD BEEN EXERTED. ALTHOUGH SAME PRESSURE NOT NOW EVIDENT, THERE IS AN INDICATION OF PRESSURE. BUT IT WOULD BE IMPOLITIC TO DISCUSS IT.

D. ASKED WHAT WAS GOG LEGAL JUSTIFICATION FOR LEVY IN LIGHT OF JAMAICA TAX BEING CHALLENGED AT INTERNATIONAL LEVEL (I.E. ICSID), JACK CITED MORAL JUSTIFICATION PER HIS OPENING STATEMENT, THEN READ 1965 RICE LETTER DRAWING LINK BETWEEN GUYANA AND JAMAICA, ADDING THAT THIS WAS BASIS OF GOG TAX CASE. UNSATISFIED REPORTER AGAIN ASKED FOR LEGAL GROUNDS, TO WHICH JACK REPLIED GOG HAS VERY STRONG LEGAL GROUNDS.

E. IN FINAL UNSOLICITED COMMENT, JACK NOTED THAT GOG WAS NOT DISTURBED OR REACTING TO ANY SPECIFIC ACT (PRESUMABLY BY REYNOLDS), BUT RATHER TO MANNER OF OPERATION OF TRANS-NATIONAL ENTERPRISES. STATEMENT AND PRESUMABLY QUESTIONS AND ANSWERS EMBARGOED UNTIL LOCAL BROADCAST 1930 SEPTEMBER 21.

3. NON-POLEMIC AND RELATIVELY MODERATE PHRASEOLOGY (AT LEAST BY THIRD-WORLD STANDARDS) OF BOTH STATEMENT AND JACK'S RESPONSES TO QUESTIONS WAS NOTEWORTHY.

EMBASSY POUCHING COMPLETE TEXT OF STATEMENT. IF DEPT BELIEVES DESIRABLE TO HAVE COMPLETE TEXT SOONEST, WILL CABLE SAME IF REQUESTED.

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Message Attributes

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Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
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Disposition Remarks:
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